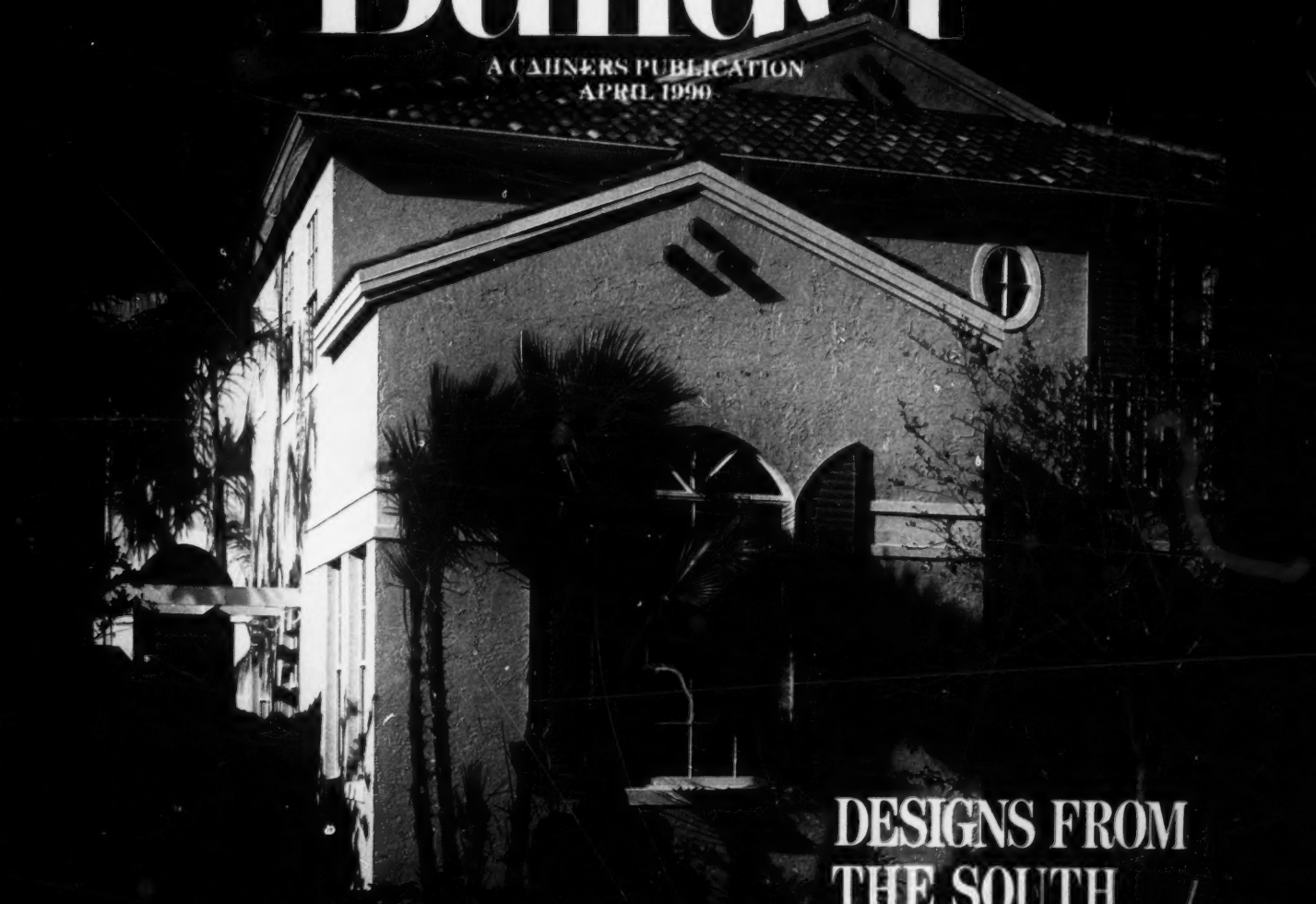
Professional Builder

A CAHNERS PUBLICATION
APRIL 1990



DESIGNS FROM THE SOUTH

Meeting Market Needs

Tackling The Infrastructure Crisis

Low-Income Housing

Finding New Capital After Thrift Reform

Professional Builder

APRIL • 1990 VOL. 55

THE MAGAZINE OF HOUSING AND LIGHT CONSTRUCTION/A CAHNERS PUBLICATION

Talk about hot-selling Southern designs: 60 percent of the homes in Jones Co.'s Carlyle collection at South Chase, Orlando, Fla., sold before opening. Page 98.

By some estimates, the bill for handling the nation's infrastructure needs over the next few decades will be in the trillions. Who will pay it? Page 112.

These detached homes at Crystal Meadows, priced from $59,000, sold out in six weeks. The project was built by Cimarron Homes of Durham, N.C. Page 120.

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Designs From The South 98

There's no market more dynamic than the New South: One region booms with service sector vigor, another reels from economic collapse. The models shown here represent a variety of designs and market strategies. But all have one thing in common—each is a best seller.

Infrastructure: Who Should Pay? 112

The financial burden of maintaining and expanding the nation's basic services—roads, schools and utilities—is shifting away from government and onto builders through impact fees and land exactions. Now that they are armed with a new strategic plan, however, builders may be ready to fight back.

How Builders Scale Obstacles To Affordable Housing 120

Home builders are stepping in—some using their own capital resources, others taking advantage of state and local subsidies—to provide low-cost housing. These case studies show the importance of cost-cutting ingenuity, planning and design innovation.

QVA Award Winner: The Bluffs Of Green Valley 124

This month's award-winning "Home of Quality, Value and Affordability" brings housing with mountain views to Las Vegas' first-time market. Builder Perry Di Loreto hit the jackpot by conquering a difficult site others thought could never be developed.

Remodeling Project Of The Month 129

The owners of this home had a tall order for their contractor: separate the bedroom wings from the main living areas; add amenities that make it easier to entertain, and take advantage of desert sunsets.

On The Cover

Channing Corp.'s Villa D'Este in Boca Raton/West Palm Beach.

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How merchandising introduces new ideas to a market. Page 82.

In the next few years, builders will increasingly turn to **alternative sources of financing** such as pension plans and foreign investors. Here's a detailed look at how they operate and what they will demand of you. Page 22. Is **S&L reform** changing the way builders operate? An exclusive survey, beginning on page 30. A primer on **managing for return** on assets. Page 43. By always anticipating change, builder **Nolan Kerschner** manages to stay profitable. Page 55. Three **market-tested plans** to make product stand out from the crowd. Page 65.

The latest in roofing colors and materials. Page 134.

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Builders Gauge Effects Of S&L Crisis

In a recent survey, 43 percent of builders said they were actively looking for new money sources to replace thrifts.

By Susan Bady, Associate Editor

The impact of the S&L crisis on home builders is unquestionably significant. In a survey conducted by KPMG Peat Marwick/Goodkin Real Estate Consulting Group, 58 percent of builder respondents said the thrift industry's problems have affected financing or joint venturing activities.

The survey was distributed in January 1990, to the top 400 builders nationwide and the top 400 non-builders (financial institutions, lenders, pension funds, investment firms, law firms and educational institutions).

Forty-one percent of non-builders said the S&L crisis and corresponding government legislation (the Financial Institutions Reform, Recovery and Enforcement Act of 1989, or FIRREA) has affected their financing or joint venturing activities. Forty-nine percent of all respondents indicated the same.

According to Sanford R. Goodkin, executive director of KPMG Peat Marwick/Goodkin Real Estate Consulting Group, it is highly significant that more than half the top builders and nearly half of the other institutions involved in real estate across the nation are facing changes in traditional lending practices. If S&L problems are affecting these large builders, then many smaller builders are likely to be devastated, Goodkin said.

Fifty-three percent of builders indicated that the S&L crisis will eventually affect their company's financing in 1990 or 1991. Of non-builders, 46 percent felt they would be affected eventually and 28 percent thought the effect would be significant. Fifty-seven percent of all respondents felt they would be affected eventually and 28 percent, significantly. The increase of respondents indicating changes in financing relationships in 1990 or 1991 suggests they feel the S&L problem will continue for the first part of the decade.

Thirty-eight percent of builder respondents had been directly involved in joint ventures with a thrift. FIRREA, which requires S&Ls to limit their real estate involvement, will have a direct impact on 24 percent of all respondents.

This creates a demand for new financing sources that will more than likely be met by foreign capital, according to Goodkin. Historically, foreign investors have limited their funding to Class A buildings in major metropolitan areas, but their money will follow opportunities. The more sophisticated lending practices applied to commercial lending will be required by home builders, he said.

The survey indicates that builders are already out searching for new money sources. Sixty-two percent are actively looking or thinking about replacement contacts for the thrifts they currently do business with. Of all respondents, 44 percent are actively looking for or thinking about replacements.

The Goodkin survey also solicited opinions about future economic conditions affecting real estate. Sixty-one percent of builders and 57 percent of all respondents feel that housing starts in 1990 will

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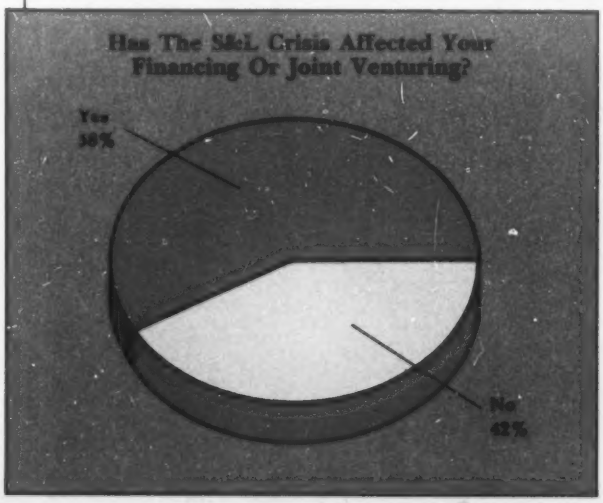
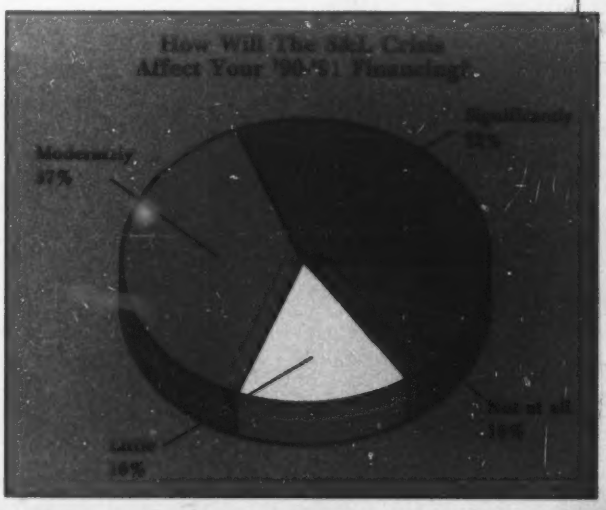




Effects of the S&L crisis on builders

Continued from page 30

be the same or higher compared to 1989. Fifty percent of builders feel their local housing markets will be weaker in 1990 compared to 1989, as do 57 percent of non-builders and 55 percent of all respondents.

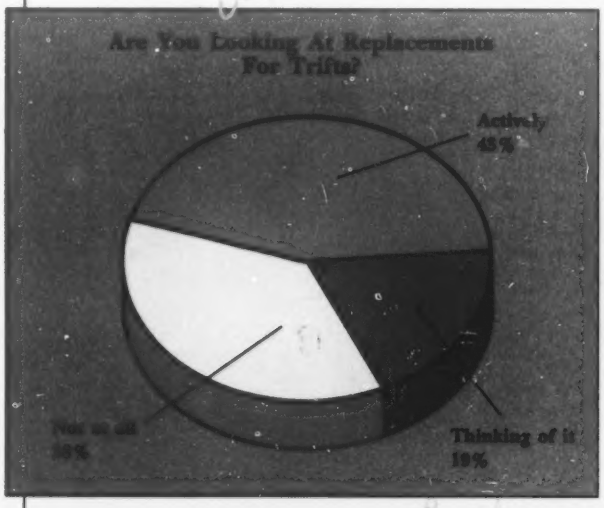
Only 17 percent of builders feel there will be a nationwide recession in 1990, compared to 23 percent of non-builders and 20 percent of all respondents. Goodkin said this is on target with Federal Reserve chairman Alan Greenspan's projection that there is a 20 percent chance the economy will fall into a recession in 1990. In other words, economic expansion may last one more year.

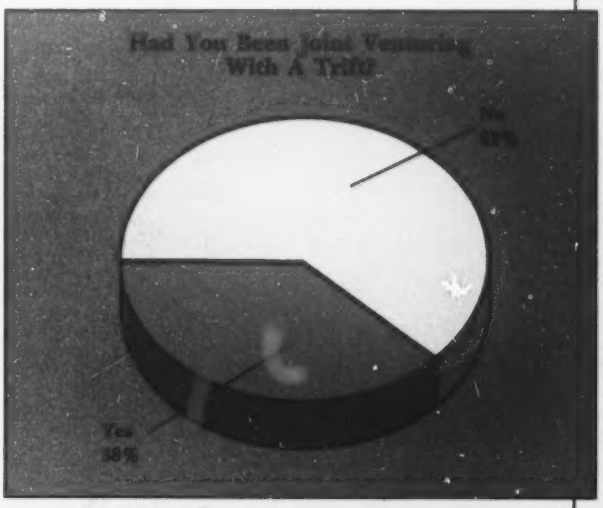
From a national economic perspective, 43 percent of builders believe that economic growth in 1990 will be the same as the economic growth of 1989. Forty-four percent of non-builders and 43 percent of all respondents agree. Fears of a recession appear to have subsided from the early months of 1989, concluded Goodkin.

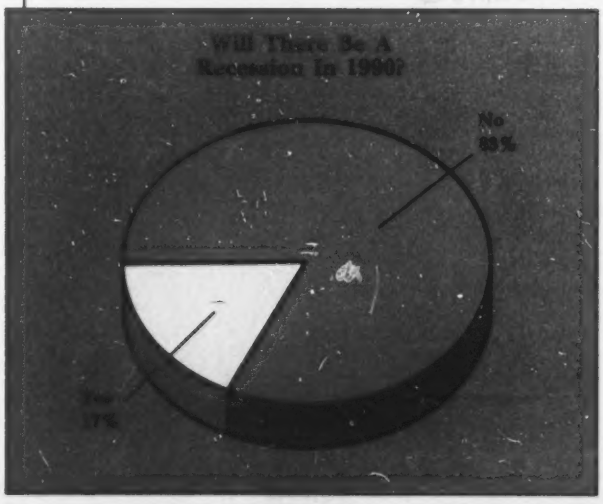
A small number (5 percent) of builders believe there will be a deep recession because of reductions in federal military expenditures.

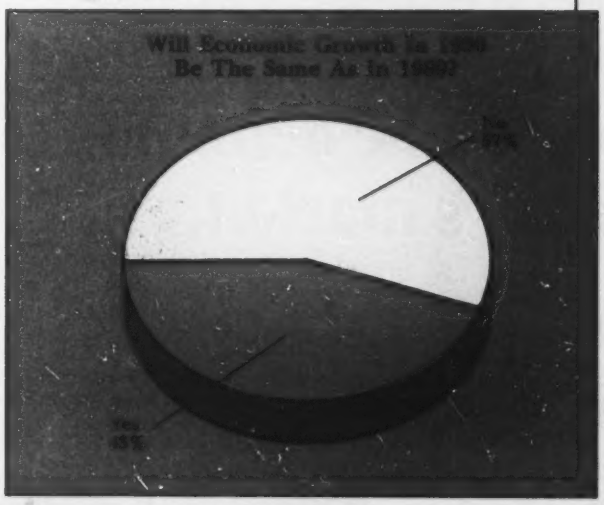
Only 17 percent of builders and 16 percent of non-builders indicated that proposed or actual military cuts will make changes in strategic planning for 1990 or 1991. Seventeen percent of all respondents do not feel military cuts will be drastic enough to reduce the local real estate markets in the near term. According to Goodkin, this indicates that some of the top business leaders in the country have faith that Congress will not throw the economy into a tailspin by drastically reducing military expenditures.

Thirty-four percent of builders and 47 percent of non-builders feel military cuts will create problems in their local markets. It may be assumed that the 41 percent who feel military cuts will create problems in their local markets must believe the disruptions will be minor, Goodkin said. □









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